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Statement



Statement on Adopting Rules Regarding
the Settlement Cycle



Chair Gary Gensler

Feb. 15, 2023

Today, the Commission is considering whether to adopt amendments to important features of the clearing and settling process. I support this adoption because it will reduce latency, lower risk, and promote efficiency as well as greater liquidity in the markets.

Some of you know that I like romantic comedies. Yesterday was Valentine’s Day. Thinking about today’s recommendation brings me to that classic 1987 film “Moonstruck,” starring Nicolas Cage and Cher. Cher plays Loretta, whose father is a plumber named Cosmo. In one scene, Cosmo examines a family’s broken pipes, turns to the homeowners, and just shakes his head. There are three kinds of pipe, Cosmo tells them. There’s garbage, which is what they own. There’s bronze, “which is very good unless something goes wrong.” Then there’s the only pipe that Cosmo uses: copper.

As Cosmo might say, today’s amendments will upgrade our market plumbing from bronze to copper.

First, the amendments will shorten the standard settlement cycle by half, from two business days (“T+2”) to one business day (“T+1”). The amendments also will halve the settlement cycle for trades relating to initial public offerings, from T+4 to T+2. As they say, time is money. Halving these settlement cycles will reduce the amount of margin that counterparties need to place with the clearinghouse. This lowers risk in the system and frees up liquidity elsewhere in the market.

Now, that’s not to say this change will be new; in fact, this change simply brings us back to the T+1 settlement cycle our markets used up until the 1920s. It also aligns with the T+1 cycle used in the \$24 trillion Treasury market.

Second, the amendments will lower the risk of the clearing process associated with allocation, confirmation, and affirmation. Under the adoption, brokers will be required to complete same-day allocation, confirmation, and allocation as soon as technologically practical and no later than the end of the trade date. This will increase resiliency and efficiency in our plumbing. The adoption will allow brokers to achieve these enhancements either through written agreements or through policies and procedures.

Third, the proposal will require clearinghouses to facilitate the straight-through processing of securities transactions. Straight-through processing refers to the process for automating the entire trade process, from execution to clearing and settling. Such automation, benefitting from technological advancements, will make our market plumbing more efficient.

Today’s adoption addresses one of the four areas the staff recommended the Commission address in response to the meme stock events of 2021. Further, the implementation for these amendments will be set to after Memorial Day weekend (May 28, 2024). This implementation comes more than three years after key industry members first proposed shortening the settlement cycle, and a year and a quarter from now, providing sufficient time in my view for the transition. Further easing the transition, the implementation date will occur during a three-day holiday weekend.

Cosmo might say this adoption will take our plumbing from bronze to copper. I say that, taken together, these amendments will make our market plumbing more resilient, timely, orderly, and efficient. “Moonstruck” opens with Dean Martin’s “That’s Amore.” Keeping in the Valentine’s Day theme, one might say this rule brings *A-more* benefits to investors and markets alike.

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